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Canada

Poultry and Products Annual

Years of Meager Growth

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Report Highlights:
High feed costs and depressed wholesale prices continue to translate into reduced profitability in the broiler processing sector. Under Canada's strict supply management system the industry decides upon the level of production. After a scale back in the second half of 2011, and given a tight supply of proteins in the market and more stable economic conditions in the next year, Post forecasts a meager production increase for 2012. The turkey market continues to remain flat.

Executive Summary:

- Record high feed costs and depressed wholesale prices continue to translate into reduced profitability in the broiler processing sector resulting in poor growth moving into 2012. For next year, Post forecasts broiler meat production to increase by a meager 1 percent to 1.035 million metric tons (MT).

- For 2011, Post has revised downwards to 1.026 million MT the initial forecast of 1.04 million MT, as the industry scales back production in the second part of the year. As such, 2011 broiler meat production is estimated to be only 0.3 percent higher than in 2010.

- Canadian imports of chicken are regulated under a tariff rate quota (TRQ). The global quota for 2012 is projected at 76,950 MT. In 2011 the allocated TRQ level is 76,704 MT.

- In recent years, Canadian poultry companies have increasingly utilized International Trade Canada's Import to Re-Export Program (IREP) whereby Canadian chicken processors import chicken under tariff free supplementary import permits for use in processing, provided they re-export the associated processed product. As a result, total chicken imports are about double the TRQ volume, as attributed to IREP imports.

- Moving into 2012, Canada's turkey market remains relatively flat, with production forecast to reach about 162,000 metric tons, up 1.3 percent from 2011. Post forecasts per capita turkey consumption at 4.40 kg (eviscerated weight), the first increase after four consecutive years of decline

Poultry, BROILER

NOTE: "NEW Post" data reflects Post's assessments and are NOT official USDA data.

CANADA Poultry BROILER	2010		2011		2012
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	NEW Post Estimates
Beginning Stocks	37	37	35	35	35
Production	1,023	1,023	1,040	1,026	1,035
Total Imports	124	124	130	135	135
Total Supply	**1,184**	**1,184**	**1,205**	**1,196**	**1,205**
Total Exports	147	147	155	155	155
Total Dom. Consumption	1,002	1,002	1,015	1,006	1,010
Total Use	1,149	1,149	1,170	1,161	1,165
Ending Stocks	35	35	35	35	40
Total Distribution	**1,184**	**1,184**	**1,205**	**1,196**	**1,205**

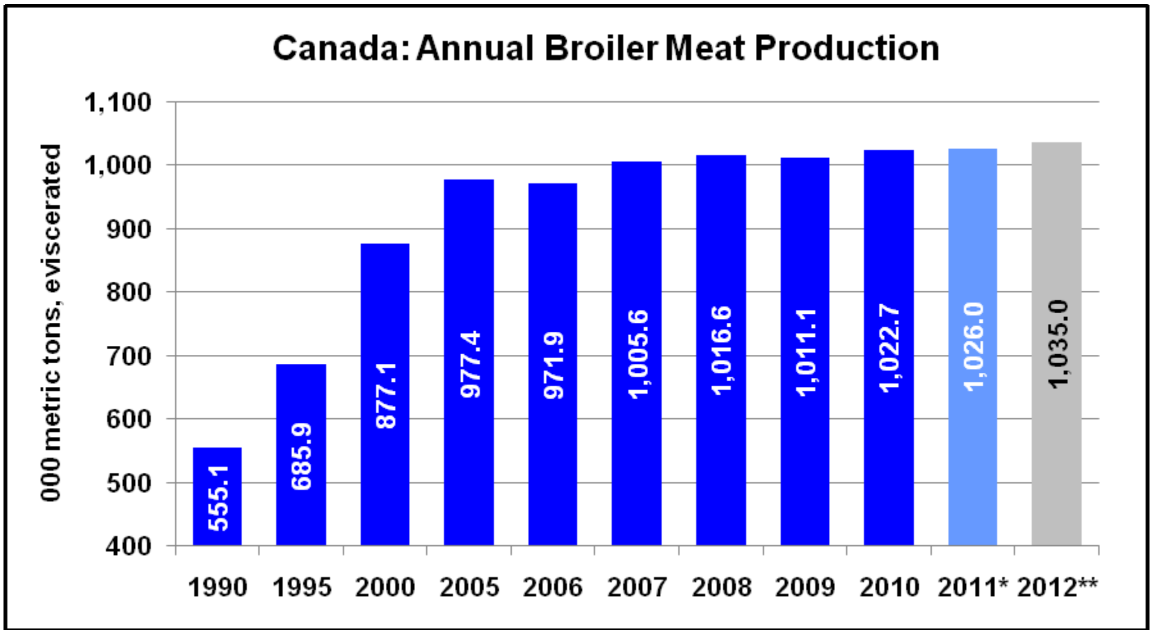
Broiler Meat Production

Record high feed costs and depressed wholesale prices continue to translate into reduced profitability in the broiler processing sector projecting the sector's downsize trend into the first part of 2012. With an overall tight supply of proteins and a more stable economic outlook, Post estimates that demand will pick up again in the second half of 2012 driving production back into positive growth. For the next year, Post forecasts broiler meat production to increase by a meager 1 percent to 1.035 million metric tons (MT).

For 2011, Post has revised downwards to 1.026 million MT the initial forecast of 1.04 million MT. After a growth of 1.5 percent in the first part of 2011 (compared to same period in 2010), the Canadian industry decided to cut back production by an estimated 0.5 percent in the second half of the year (compared to 2010) in an effort to improve wholesale prices and profitability. As such, 2011 broiler meat production is estimated to be only 0.3 percent higher than in 2010.

Canadian broiler production had seen a period of rapid growth during the 1990s, with an average annual growth rate of 5.8 percent for the entire decade, reflecting a strong domestic market demand both from the retail and foodservice sectors and a change in consumer preferences away from red meat and towards a perceived healthier chicken diet.

With the decade starting in 2000, broiler production expansion slowed down, achieving a much more modest average annual growth rate of 1.6 percent, reflecting a matured market that seems to have maximized its potential. For the time being, future growth will be mainly supported by the annual increase in Canadian population, and by the ethnical composition of Canada's immigration, where many newcomers of Asian or African origin have a stronger preference for chicken meat versus red meat.



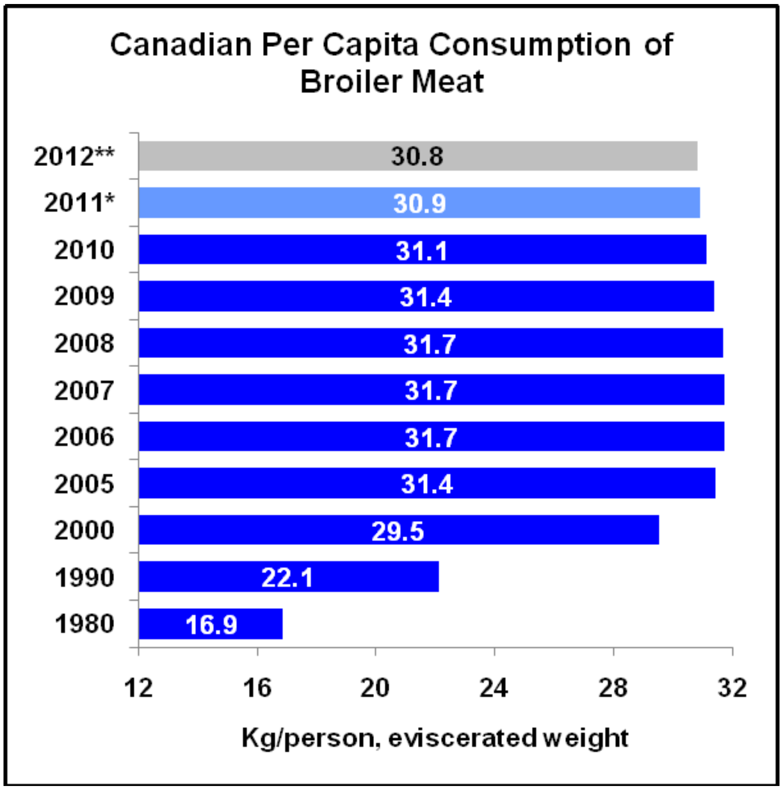
Source: Statistics Canada / Post *estimate ** forecast

Canada operates a supply management system in the broiler sector. Unlike in the United States, the industry is not vertically integrated. Canada has multitude of independent chicken farmers, often operating family businesses, supplying live birds to processing companies. Production is tightly controlled through a quota system. Decisions on production volume are taken before every 8-week cycle, with the national volume being allocated to each of the ten producing provinces, and subsequently further allocated to individual producers based on the total production quota.

Consumption

Per capita broiler meat consumption had been stagnant and slightly declining for the past five years. Post forecasts this trend to continue into 2012, with a per capita level of 30.8 kg, down from an estimated level of 30.9 kg in 2011. The Canadian market in now mature and supply of broiler meat has not kept up with increases in population. In addition, following the recession year and given the current fragile recovery consumers are showing restraint in increasing demand. Post also believes that declining consumption levels do not necessarily mean that people eat less broiler meat – it may just be the case that given the existing economic environment consumers, both individual and institutional, are less wasteful with the products they purchase.

Despite these recent trends, total domestic chicken consumption in Canada has almost doubled in the past 30 years. The increase was partly due to the country's population growth which increased almost 39 percent from 24.5 million in 1980 to about 34 million in 2010. At the same time, the increase in consumption can also be attributed to chicken's increasing popularity among Canadians during the period. Overall, Canadian preferences have shifted towards chicken primarily due to an increase in health awareness and the perception that chicken is leaner and therefore healthier than other meats. Price is not a major factor since poultry prices, due to the supply management system, are consistently higher than beef or pork, which are not under supply management schemes.

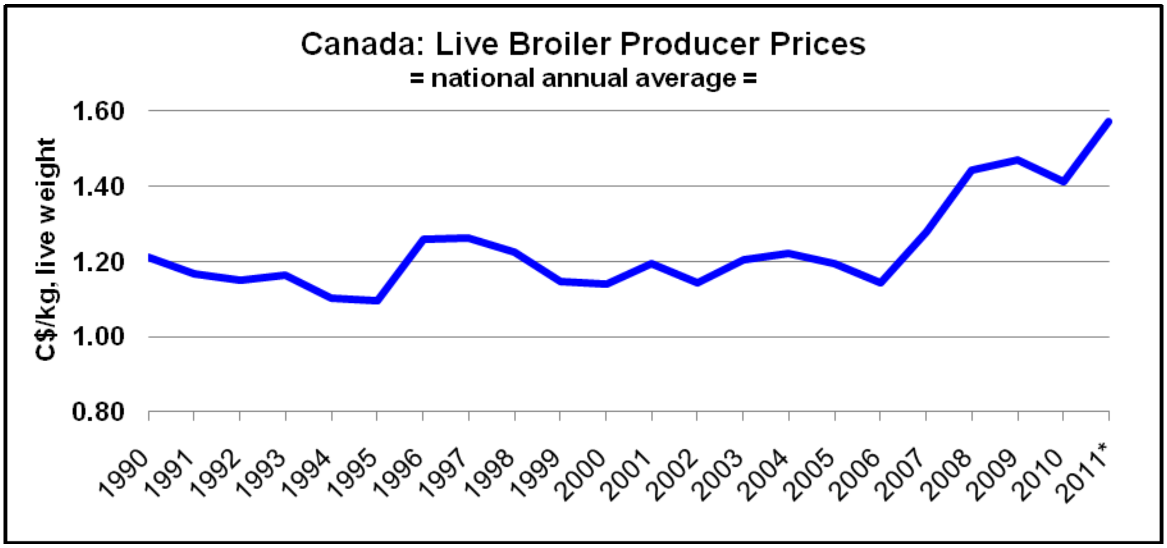


Source: Statistics Canada / Post *estimate ** forecast

In recent years, the pattern of Canada's immigrant population is one that is more likely to have dietary preferences for chicken rather than beef or pork. In addition, Canada's food service providers are continually introducing chicken menu items in creative ways or as an ingredient in ethnic-style food offerings that are becoming increasingly popular. Chicken Farmers of Canada's Strategic Plan for 2009-2013 lists as an industry objective to increase annual per capita consumption of chicken to 33 kg, an ambitious goal given the current conditions.

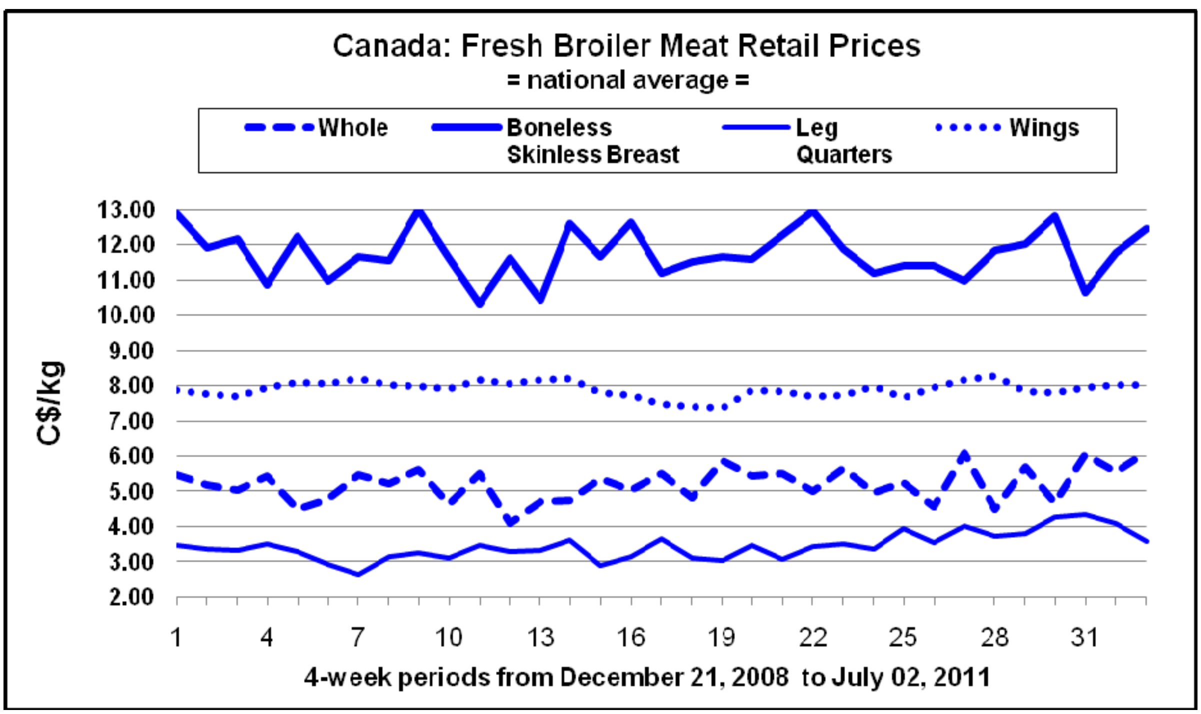
Prices

With the supply management system, chicken producers receive a fixed price for their live birds, which is determined every 8-week cycle based on production costs. Ontario is the largest chicken producing province in Canada, capturing about one-third of the market, and therefore Ontario live bird prices are the basis for the calculation of prices in other provinces. Due to the supply management system, producer prices have remained remarkably stable over time, and only showed a more substantial increase in the past few years due to the dramatic increase in grain and feed prices.



Source: Chicken Farmers of Canada / *Post estimate

Like with most agriculture products, broiler meat retail prices are minimally impacted by farm gate prices. The Canadian supply management system only guarantees certain price levels for producers and not downstream for the other participants in the supply chain. Wholesale and retail broiler meat prices are usually reflective of market conditions in terms of supply and demand. They are also reflective of consumer preferences for various chicken cuts, and of their quality and degree of transformation.



Source: Agriculture and Agri-Food Canada

Similar to consumers in United States, Canadian consumers tend to prefer white meat (breasts and wings) rather than dark meat (legs). The most expensive chicken cut is the fresh boneless skinless breast, widely used in restaurants and a preferred barbecue item for Canadians. Wings are seen as a good complement to beer and are very popular during the winter hockey season. Leg quarters are usually the least expensive chicken cut in groceries, cheaper even than the whole birds.

Trade

Imports

For 2012 imports are projected at 135,000 metric tons (MT), unchanged from the estimated level for 2011. Under the supply management system, broiler meat imports are controlled and subject to a tariff rate quota (for more information consult the policy section of this report), which is a function of the production level. Market conditions in the United Sates also play a significant role in import decisions, since a large price differential between the lower U.S. broiler meat prices and the higher Canadian ones is a strong incentive for importers to bring in more American meat, especially under programs that provide a customs duty exemption, such IREP.

CANADA: Broiler Meat Imports

Quantity in metric tons, product weight				January-June		%change
	2008	2009	2010	2010	2011	- 11/10 -
World	**132,884**	**129,677**	**124,043**	**58,068**	**62,396**	**7.5%**
United States	114,296	110,710	106,251	50,551	53,667	6.2%
Brazil	15,615	16,127	15,345	6,510	7,111	9.2%
Thailand	2,455	2,260	2,071	1,244	1,023	-17.8%
Import Market Shares						
United States	86%	85%	86%	87%	86%	
Brazil	12%	12%	12%	11%	11%	
Thailand	2%	2%	2%	2%	2%	

Source: Global Trade Atlas

The United States is Canada's largest supplier of broiler meat, with a market share in excess of 85 percent for the recent years, followed by Brazil at about 12 percent market share. In general, some Canadian importers are discouraged from importing Brazilian chicken, despite its lower cost, because it cannot be re-exported to the United States. Driven by increased IREP activity, imports from Unites States were up 6.2 percent during the first six months of 2011compared to the same period in 2010. Brazilian imports were also up 9.2 percent.

Product Control for Brazilian Poultry: Since USDA does not permit imports of Brazilian chicken, the Canadian Food Inspection Agency (CFIA) has strict import procedures to ensure that Brazilian chicken in Canada does not enter the United States. Under CFIA regulations, poultry meat imported from Brazil may not be exported to the United States and may not be used in the manufacture of meat products exported to the United States.

Canadian poultry slaughter and processing establishments that import poultry meat from Brazil are not eligible to export poultry meat products to the United States. All poultry meat and meat products present in the non-eligible establishments must not enter Canadian establishments that have full export status for the United States. All Canadian establishments (including storage facilities) must maintain inventory records regarding origin of all meat present on their premises and the destination of meat shipped from the premises.

Exports

Post forecasts 2012 broiler meat exports at 155,000 MT, the same level which is estimated for 2011. Increased activity under the imports to re-export program (IREP) and sustained demand on the Asian markets are the driving forces behind Canadian exports in both 2011 an 2012.

CANADA: Broiler Meat Exports

Quantity in metric tons, product weight				January-June		%change
	2008	**2009**	**2010**	**2010**	**2011**	**- 11/10 -**
World	**152,067**	**147,015**	**147,295**	**74,464**	**69,956**	**-6.1%**
United States	58,612	54,045	54,043	26,375	27,547	4.4%
Philippines	21,812	21,076	23,702	10,870	9,788	-10.0%
South Africa	4,031	7,343	16,227	8,341	7,649	-8.3%
Hong Kong	13,315	14,420	12,101	8,097	4,226	-47.8%
Taiwan	16,203	12,220	10,402	6,756	8,268	22.4%
Russia	5,758	2,403	3,820	2,339	200	-91.4%
All other	32,336	35,508	27,000	11,686	12,278	5.1%
Export Market Shares						
United States	39%	37%	37%	35%	39%	
Philippines	14%	14%	16%	15%	14%	
South Africa	3%	5%	11%	11%	11%	
Hong Kong	9%	10%	8%	11%	6%	
Taiwan	11%	8%	7%	9%	12%	
Russia	4%	2%	3%	3%	0%	

Source: Global Trade Atlas

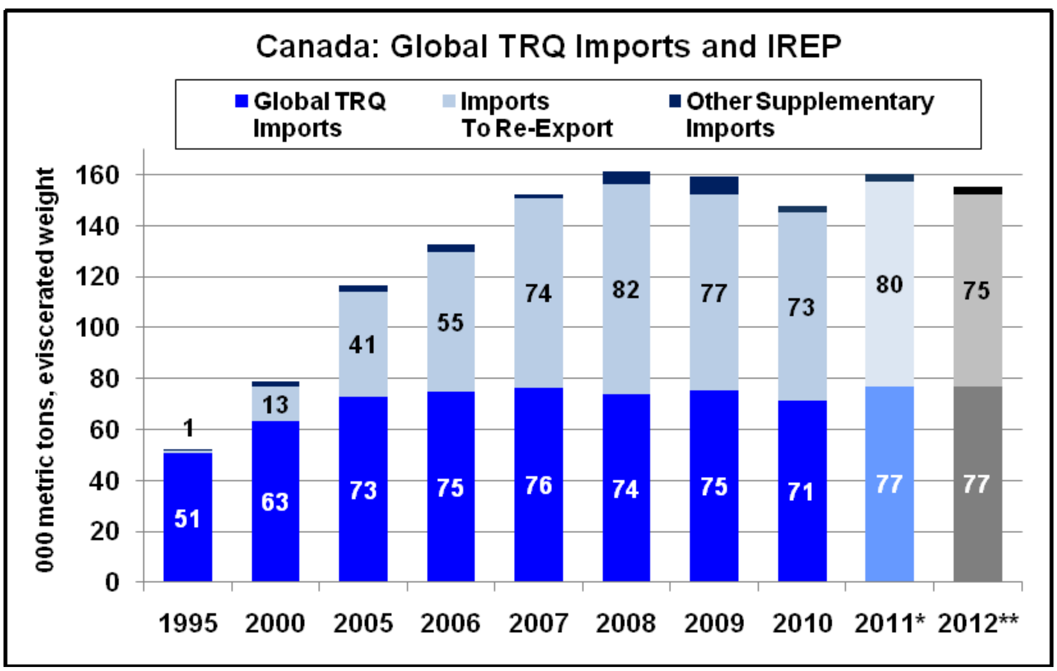
Generally speaking exports fall into two broad categories: the majority of them represent the "re-export" side of the IREP, exports being a requirement of the program since the original imports are prohibited from entering the domestic market, while the rest of them reflect "genuine" exports. The latter category is made up mostly of dark meat cuts (such as leg quarters) since, like in the case of United States, the Canadian domestic market shows a stronger preference for white meat (breasts).

Policy

Tariff Rate Quota

Canada controls imports of chicken under a tariff rate quota (TRQ). The minimum access level (into Canada) under the World Trade Organization (WTO) commitment is 39,844 metric tons (MT) but Canada applies the higher access level under NAFTA, which is equal to 7.5 percent of the previous year's domestic chicken production as reported by Statistics Canada. For 2012, the global permit allowance is forecast to increase to 76,950 MT based upon 2011 production. For 2011, the global chicken TRQ is 76,704 MT as based on the 2010 production level. Actual chicken imports under the TRQ may be slightly higher or lower than the allocated amounts, based on prevailing market condition in each year.

Under the TRQ, imports are subject to low "within access commitment" rates of duty up to the predetermined limit and imports over this limit are subject to higher "over access commitment" rates of duty. However, Canada regularly issues supplementary import permits for: 1) periods when there are product shortages; 2) the chicken Import to Re-Export Program (IREP), under which import allocations are issued to Canadian poultry processors whose finished manufactured products are intended for re-export, and 3) to Canadian poultry companies, commonly referred to as the FTA (free trade agreement) sector, who compete in the Canadian marketplace with similar, imported processed products that receive zero-tariff treatment under the NAFTA. Information on the chicken TRQ, other supplementary imports and the process of importing broiler meat into Canada is located on the web site of the Department of Foreign Affairs and International Trade (DFAIT), at the following link:
http://www.international.gc.ca/controls-controles/prod/agri/chicken-poulet/index.aspx?menu_id=26&menu=R



Source: DFAIT / Post *estimate **forecast

Imports to Re-Export Program: In recent years, the majority of supplementary imports have been comprised of imports under the IREP program. The program requires that the resulting processed chicken product be exported, since the diversion of product imported under IREP to the Canadian (domestic) market is prohibited. It is a policy that helps Canadian poultry processors remain viable by giving them access to lower priced imported chicken, but offers little to Canadian consumers who pay high retail prices for chicken under the supply managed regime. Canadian proponents of the IREP program argue that it allows Canadian chicken processing plants to achieve economies of scale they could not otherwise achieve if restricted to available supplies of domestically produced chicken. IREP imports became popular at the end of the 1990s and have continued to grow significantly, to the point where in 2008 they exceeded for the first time the import volumes under the global TRQ. IREP imports may be sourced in any country, but in practice almost the entire volumes are imported into Canada from United States, and once processed they return back to the U.S. market.

Special Agricultural Safeguard (WTO)

In 2008, Canada gave notice of the volume and price triggers that will be used to operationalize the World Trade Organization (WTO) Special Agricultural Safeguard (SSG) for Canada's supply-managed products (i.e. products under a tariff rate quota). The Special Agricultural Safeguard is a provision that allows additional duties to be triggered when import prices fall below a certain level. Currently published triggers are available at the following site:
http://www.agr.gc.ca/itpd-dpci/tec/4910-eng.htm

The Canadian government officials have recently completed consultations with the poultry industry in adjusting price-triggers for a small number of poultry commodities. The new 2011 trigger levels for all products, including the newly agreed to triggers for poultry products, will be soon made public on the website indicated above. Unit prices which would theoretically trigger the SSG are currently much lower than current import price trends and activation of the safeguard is not expected. In the event that import prices do decline to levels below trigger prices, the SSG would not automatically be activated, but the situation would be evaluated on a case-by-case basis requiring formal WTO notification and an Order in Council (i.e. federal cabinet approval).

Poultry, TURKEY

Moving into 2012, Canada's turkey market remains relatively flat. Production is forecast to reach about 162,000 metric tons in 2012, up 1.3 percent from previous year's output. For 2011, Post estimates per capita turkey consumption at 4.38 kg (eviscerated weight), the fourth decline in four consecutive year. However, per capita consumption is forecast at 4.40 kg in 2012.

NOTE: "NEW Post" data reflects Post's assessments and are NOT official USDA data.

CANADA Poultry TURKEY	2010		2011		2012
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Estimates	NEW Post Estimates
Beginning Stocks	15	15	17	15	13
Production	165	159	167	160	162
Total Imports	8	8	8	8	8
Total Supply	**188**	**182**	**192**	**183**	**183**
Total Exports	23	24	21	25	25
Total Dom. Consumption	148	143	154	145	145
Ending Stocks	17	15	17	13	13
Total Distribution	**188**	**182**	**192**	**183**	**183**